

Global Economy in the Third Quarter of 2006

In the third quarter of 2006, the world economic growth sustained but the trend varied in different regions. Despite the slowdown, the US economy was benefited from falling unemployment rate and a substantial sag in international crude oil prices which further eased inflationary pressures. The rapid economic resilience of the Euro zone was driven by increases in domestic consumption and fixed assets investments. The Japanese economy regained momentum but at a slow pace, without being able to get away from the darkness of deflation. Prospect for economic growth in the developing countries in the Asian region was positive, where inflation levels under the control of the central banks. On balance, the world economy was stable in general; however, issues that constrained its development persisted such as fluctuation of high international oil prices, rising overall price level, expanding inflationary pressures, global interest rate hikes, intensified global trade imbalances and depreciation of the US dollar, etc. It is projected that the world economy in 2006 will continue to grow at a fairly fast pace.

In the September 2006 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) stated that the world economy maintained a moderate growth despite high oil prices. Therefore, forecast for global economic growth was marked up to 5.1% in 2006 and 4.9% in 2007, both up by 0.25 percentage point from the projection made in April this year. Meanwhile, the forecast for the Euro zone was adjusted upwards from 2.0% to 2.4% in 2006 and from 1.9% to 2.0% in 2007, whereas the growth of the US was expected to remain at 3.4% in 2006 before revising down from 3.3% to 2.9% in 2007. For Japan, the projection for growth was scaled down from 2.8% to 2.7% in 2006 and remained at 2.1% in 2007. In addition, the growth forecast for the world trade volume (goods and services) was updated from 8.0% to 8.9% in 2006 and from 7.5% to 7.6% in 2007.

The Organisation for Economic Co-operation and Development (OECD) expressed, in the November 2006 edition of the *Economic Outlook*, that the world economy was experiencing a rebalancing growth rather than a slowdown. Therefore, the economic growth forecast for all OECD members was marked up 0.1% to 3.2% in 2006 and revised downwards from 2.9% to 2.5% in 2007. For the Euro zone, the growth forecast was adjusted up from 2.2% to 2.6% in 2006 and from 2.1% to 2.2% in 2007. Growth projection for the US was scaled down from 3.6% to 3.3% in 2006 and from 3.3% to 2.4% in 2007, while forecast for Japan was maintained at 2.8% in 2006 before revising down from 2.2% to 2.0% in 2007. Furthermore, the growth forecast for the world trade volume (goods and services) for 2006 was rectified upwards from 9.3% to 9.6%, whereas that for 2007 was projected at 7.7%.

The US economy slackened off in the third quarter of 2006, with a growth rate ^a of merely 1.6%,

^a Quarter-to-quarter growth refers to the rate of change of the reference quarter over the previous quarter, i.e. the comparison between two consecutive quarters.

down from 5.6% in the first quarter and 2.6% in the second quarter. This is the lowest growth rate ever recorded in the past three years, attributable to a decline in investment in housing. However, the Gross Domestic Product (GDP) registered a 2.9%^b growth year-on-year, indicating a mild economic growth in the third quarter. Private consumption expenditure slid from 3.0% in the second quarter to 2.8%, whereas private domestic investment dropped from 7.4% to 5.5%. As regards external trade, the growth of the total value of imports of goods fell marginally to 12.7% over the previous quarter, whilst that of exports of goods expanded from 13.3% in the second quarter to 16.0% in the third quarter. Consumer Price Index (CPI) was 3.3%, down 0.7 percentage point from the preceding quarter. Meanwhile, the employment market slightly worsened, with the unemployment rate went up 0.1 percentage point to 4.7%. Fiscal deficits, widening trade imbalances and the weak housing market remained the main challenges of the US economy.

Economic growth in the Euro zone maintained its momentum as in the second quarter. GDP registered an increase of 2.6%, down 0.1 percentage point from the second quarter, whereas the unemployment rate stood at 7.8%. Exports of goods slowed and registered a growth of 7.8%, down by 1.8 percentage points year-on-year after the upsurge in the first half year of 2006. Imports of goods also softened to an increase of 10.5%. Meanwhile, inflationary pressures eased off slightly and CPI recorded a 2.1% growth, representing a decrease of 0.4 percentage point over the previous quarter.

The economy of Germany sustained in an upward trend. GDP indicated an increase of 2.3% in the third quarter of 2006, which was mainly driven by increases in private consumption expenditure, corporate fixed capital investment, government final consumption expenditure and external trade. Among them, private consumption expenditure and government final consumption expenditure in the second quarter of 2006 remained at the same levels as in the corresponding period of 2005, whereas the respective figures in the third quarter of 2006 edged up by 0.6% and 0.9% respectively. Corporate fixed capital investment accelerated from 6.1% growth in the second quarter of 2006 to 6.8%. Meanwhile, growth rates of imports and exports expanded from 9.2% and 9.3% in the previous quarter to 10.2% and 10.7% respectively. The employment situation continued to improve, with the unemployment rate maintained at the same level as in the second quarter, at 8.2%. In UK, the economy remained stable in an upward trend. Economic growth in the third quarter reached 2.7%, up by 0.7% from the preceding quarter. The impetus of economic growth in the third quarter came from the service industry, which registered an increase of 0.8% over the previous quarter. Within this industry, business and financial services achieved relatively high growth rates. The manufacturing sector went up 0.6% over the second quarter. However, reduced output in the mining sector resulted in an increase of only 0.1% in the total industrial output. Total values of imports and exports rose 6.5% and 8.5% respectively compared with the same quarter of 2005. The overall employment market remained stable, with the unemployment rate went up 0.1 percentage point to

^b Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the third quarter of 2006 with the corresponding quarter of the previous year.

5.6%. In France, the economic growth abated to 1.6% in the third quarter. Imports and exports climbed up 7.0% and 4.0% respectively in value over the same period of 2005. CPI rose marginally by 1.0%. As regards the employment market, the unemployment rate stood high at 8.9%, slightly down by 0.2 percentage point from the 9.1% in the previous quarter.

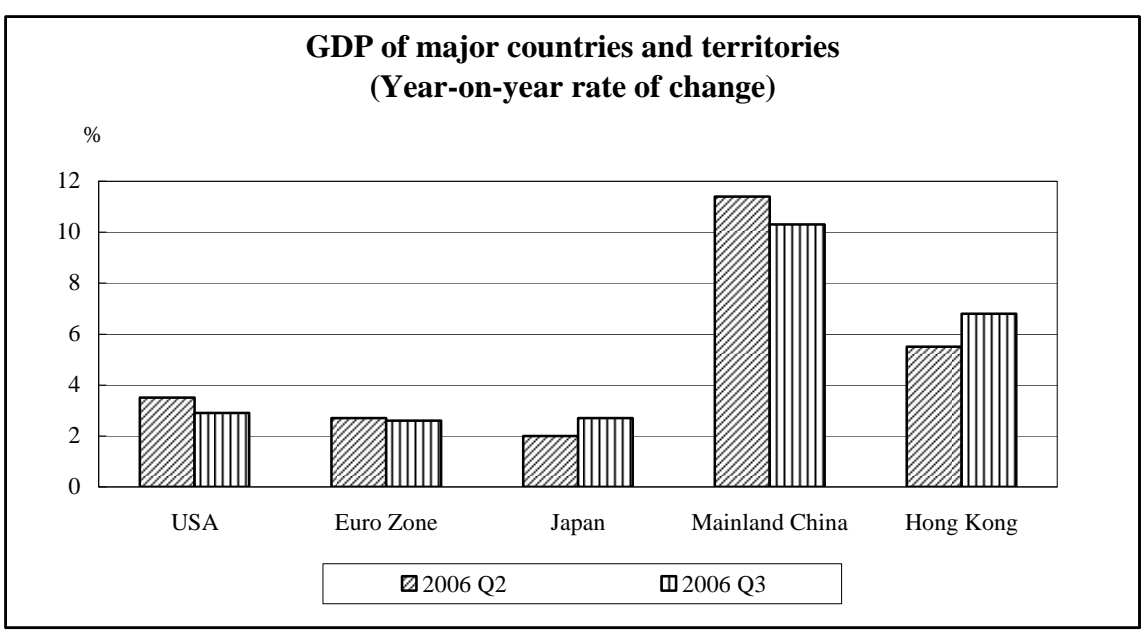
With export trade as its primary economic pillar, the Asian economies sustained their growth, which was benefited from the favourable external economic environment, increasing exports and strong domestic consumption. However, persistent high oil prices raised the costs of production and living, resulting in different level of increases in the CPI of the Asian countries. Meanwhile, regional economic growth risks were enlarged on the back of global interest rate hikes and the weakening of the US dollar against currencies in major Asian Pacific countries. In Japan, the economy remained favourable in the third quarter, at a growth rate of 2.7%, as a result of a 10.4% growth in corporate investment in equipment. Nevertheless, private consumption slowed and edged up by 0.3%, while fixed capital investment dropped abruptly by 16.8%. Imports and exports of goods expanded 16.7% and 15.6% respectively. The employment market continued to improve, with the unemployment rate further dropped to 4.1%. The Japanese market was initially confirmed to have stepped out from deflation, as CPI recorded growth for three consecutive quarters, at 0.6% in the third quarter of 2006. As a consequence, the Japanese Central Bank decided to end the relaxing zero interest rate policy in July and imposed an interest rate of 0.25%. The Republic of Korea recorded a substantial economic growth in the third quarter, with GDP rose by 4.6% and imports and exports of goods soared by 21.4% and 16.6% respectively. CPI went up 2.5% while the employment situation improved further, with an unemployment rate of 3.3%.

In Singapore, the economy showed a strong performance. The overall economic growth in the first three quarters of the year reached 8.6%, with the third quarter alone recorded an expansion of 7.2% in the third quarter, all industries registered notable increases. However, growth in the manufacturing industry abated to 10.6% as a result of slowdown in areas such as biomedicine, electronics and chemistry, etc. Besides, growth in the service industry showed slightly to 6.5%, in which all sectors weakened except wholesale and retail that logged an increase of 10.6%. Conversely, the depressing construction industry rebounded and recorded growth in the second and third quarters at 0.4% and 2.3% respectively. Imports and exports of goods expanded 8.6% and 12.0% respectively. The employment market remained satisfactory, with the unemployment rate edged down from 2.8% in June to 2.7% in September. In addition, CPI rose marginally by 0.7%. In Taiwan, China, despite reduced private consumption, the economic performance still exceeded expectation. GDP climbed up 5.0% in the third quarter, which was attributable to increases in private investment and production of the manufacturing industry as a result of expanded exports. Imports and exports recorded growth of 10.8% and 12.3% respectively. The unemployment rate went up slightly to 4.0%. CPI declined since August and registered a drop of 0.3% in the third quarter.

The Hong Kong economy maintained a strong growth. GDP registered at 6.8% in the third

quarter after an increase of 5.5% in the previous quarter. This was mainly caused by expansion in domestic fixed capital formation from 5.0% in the preceding quarter to 12.7% and growth in imports and exports of goods from 7.8% and 5.2% in the second quarter to 10.6% and 8.4% respectively. The employment market continued to improve, with the unemployment rate dropped marginally by 0.1% to 4.9%. Furthermore, promising economic prospect, rising stock market and moderate rebound of the property market underpinned consumer spending. Consequently, private consumption swelled 4.4%, lower than the 5.1% recorded in the second quarter, whereas CPI went up 2.3%.

In Mainland China, the economy maintained a growth rate at around 10%. GDP growth in the third quarter was 10.3%, down slightly from the 11.4% increase in the previous quarter. In the first three quarters of 2006, GDP growth was 10.7%. The overheating fixed capital investment persisted, with the cumulative amount from January to September 2006 jumped 27.3% year-on-year. Imports and exports of goods continued to surge in the third quarter, by 22.1% and 28.7% respectively, resulting in a trade surplus of USD 48.67 billion. The actual foreign investment in the first three quarters slid 1.5% to MOP 42.589 billion. At the end of September 2006, Mainland China's foreign exchange reserve reached USD 987.9 billion, an increase of USD 46.8 billion compared with the end of June.



I. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD AND MACAO

1. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD (YEAR-ON-YEAR COMPARISON)

	Year-on-year rate of change (%)							
	2003	2004	2005	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3
USA								
Gross Domestic Product	2.5	3.9	3.2	3.4	3.1	3.7	3.5	2.9
Exports of goods	4.5	13.0	10.4	10.2	10.8	14.2	13.3	16.0
Imports of goods	8.5	17.0	13.7	13.8	13.5	14.3	12.9	12.7
Consumer Price Index	2.3	2.7	3.4	3.8	3.7	3.6	4.0	3.3
Unemployment rate	6.0	5.5	5.1	5.0	4.7	5.0	4.6	4.7
Japan								
Gross Domestic Product	1.8	2.3	2.6	2.8	4.2	3.1	2.0	2.7
Exports of goods	4.7	12.1	7.3	7.4	13.4	5.3	14.7	15.6
Imports of goods	5.1	10.9	15.6	16.8	20.6	14.1	18.8	16.7
Consumer Price Index	-0.3	-0.1	-0.3	-0.3	-0.5	0.4	0.7	0.6
Unemployment rate	5.3	4.7	4.4	4.2	4.3	4.4	4.2	4.1
Euro area								
Gross Domestic Product	0.7	2.1	1.3	1.6	1.8 ^r	2.2 ^r	2.7 ^r	2.6
Exports of goods	-2.9	8.4	7.0	9.6	8.9	15.5	9.7	7.8
Imports of goods	-0.5	8.5	12.0	14.2	14.2	22.1	14.6	10.5
Consumer Price Index	2.1	2.1	2.1	2.3	2.3	2.3	2.5	2.1
Unemployment rate	8.7	8.9	8.6	8.4	8.3	8.0	7.8 ^r	7.8
Mainland China								
Gross Domestic Product	9.1	10.1	9.9	9.8	9.9	10.3	11.4	10.3
Exports of goods	34.6	35.4	28.4	29.1	21.7	26.6	24.1	28.7
Imports of goods	39.9	36.0	17.6	19.6	22.1	24.8	18.4	22.1
Consumer Price Index ^a	1.2	3.9	1.8	1.4	1.8	1.2	1.3	1.3
Hong Kong								
Gross Domestic Product	3.2	8.6	7.3	8.2	7.5	8.0	5.5 ^r	6.8
Exports of goods	11.7	15.9	11.4	12.5	10.0	12.1	5.2	8.4
Imports of goods	11.5	16.9	10.3	11.5	11.3	13.8	7.8	10.6
Consumer Price Index	-2.6	-0.4	1.0	1.4	1.8	1.6	2.1	2.3
Unemployment rate	7.9	6.8	5.6	5.7	5.0	5.0	5.0	4.9

^a Accumulated year-on-year comparison

^r Rectified data

Source : U.S. Bureau of Economic Analysis

U.S. Census Bureau

U.S. Bureau of Labor Statistics

Japan Economic and Social Research Institute

Japan Ministry of Finance

Japan Bureau of Statistics

Eurostat

China National Bureau of Statistics

Hong Kong SAR Census and Statistics Department

I. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD AND MACAO

2. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD (COMPARISON WITH PRECEDING PERIOD)

	Change from preceding period (seasonally adjusted) (%)							
	2003	2004	2005	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3
USA								
Gross Domestic Product	2.5	3.9	3.2	4.2	1.8	5.6	2.6 ^f	1.6
Exports of goods	4.5	13.0	10.4	0.8	2.8	5.3	3.3	3.9
Imports of goods	8.5	17.0	13.7	3.1	5.2	2.3	2.4	3.7
Consumer Price Index	2.3	2.7	3.4	1.3	0.8	0.6	1.2	0.7
Unemployment rate	6.0	5.5	5.1	5.0	5.0	4.7	4.7	4.7
Japan								
Gross Domestic Product	1.8	2.3	2.6	0.5 ^f	1.0 ^f	0.8 ^r	0.4 ^f	0.5
Exports of goods	4.7	11.7	7.5	4.2	6.8	-4.1	2.4	6.6
Imports of goods	5.2	10.3	16.2	6.6	6.4	1.1	1.0	5.9
Consumer Price Index	-0.3	-0.1	-0.3	-0.1	0.1	0.5	0.2	0.3
Unemployment rate	5.3	4.7	4.4	4.3	4.5	4.2	4.1	4.1
Hong Kong								
Gross Domestic Product	3.2	8.6	7.3	2.2	0.6	2.2	0.3 ^f	3.5
Exports of goods	11.7	15.9	11.4	3.0	2.2	2.0	-1.4	6.4
Imports of goods	11.5	16.9	10.3	1.6	2.6	3.9	-1.5	4.3
Consumer Price Index	-2.6	-0.4	1.0	0.1 ^f	0.2 ^f	0.1	0.3	0.1
Unemployment rate	7.9	6.8	5.6	5.4 ^f	5.2 ^f	5.2	5.0	4.7

r Rectified data

Source : U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics

Japan Economic and Social Research Institute, Japan Ministry of Finance, Japan Bureau of Statistics

Hong Kong SAR Census and Statistics Department